APPENDIX F

Affordability

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Introduction

Although limited studies have been performed to document the relationship among development fees, housing prices, and housing affordability, the studies which do exist indicate that a number of factors influence the relationship. These studies also suggest that, to the extent development fees represent a potential barrier to housing affordability, their impact may be mitigated by the implementation of other policies that encourage increased supply of low-cost housing.

Summary of National Literature

This section summarizes three resources providing information and discussion on the topic of housing affordability.

Brookings Institution Center on Urban and Metropolitan Policy

In *The Link Between Growth Management and Housing Affordability: the Academic Evidence,* a discussion paper prepared for the Brookings Institution Center on Urban and Metropolitan Policy[1], the authors state, "Housing prices are actually determined by a host of interacting factors, such as the price of land, the supply and types of housing, the demand for housing, and the amount of residential choice and mobility in the area." While there are a number of factors that can influence the price of housing, the paper states that the "strength of the housing market is the single most important influence on housing prices whether growth management programs are present or not."

The paper looks at the impact of all aspects of growth management programs on housing affordability. These aspects include policies related to zoning and comprehensive planning, in addition to development fees and exactions. The authors suggest that it may be necessary to look beyond a single aspect such as development fees to determine the overall impact of the community's growth management program on housing affordability. For example, policies that impact housing densities and encourage mixed housing types may increase the supply of affordable housing.

The paper suggests that "growth management programs can also make housing more affordable by lowering public infrastructure costs and minimizing regulatory delays." The authors also suggest that it is necessary to look beyond just housing prices in assessing affordability: "…Residents are not necessarily worse off if housing prices increase. Instead, higher housing prices may be offset by lower transportation and energy costs and better access to jobs, service, and amenities."

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[1] Nelson, Arthur C., Rolf Pendall, Casey J. Dawkins, and Gerrit J. Knaap. *The Link Between Growth Management and Housing Affordability: The Academic Evidence.* February 2002.

Public Policy Institute of California

In *Who Pays for Development Fees and Exactions* from the Public Policy Institute of California[2], the authors looked at the effect of development fees on housing prices in Contra Costa County (San Francisco Bay area) between 1992 and 1996. Through empirical research, they determined who ultimately paid for development fees: homeowners (in the form of higher housing prices), or developers and landowners (through lower profits). The research found that "underlying supply and demand factors, as well as current economic conditions will determine which fraction of the burden is actually borne by each party."

Using regression analysis, the authors quantified the impacts of the fees on housing prices. In the eastern portion of Contra Costa County, housing prices were found to increase $0.25 for every $1 increase in development fees. However, in the western portion of the County, the full $1 increase in fees was passed along to homebuyers through increased housing prices. The authors state, "The difference in the effects of fees on prices was primarily due to disparate economic conditions." The eastern portion of the County was experiencing depressed market conditions throughout the study period, while the western part of the County experienced a strengthening in market conditions during the same period of time.

California Department of Housing and Community Development

A 2001 study by the California Department of Housing and Community Development looked at the relationship between development fees and housing affordability in 89 California cities and counties[3]. Types of fees researched included planning fees, building permits, inspection and plan check fees, as well as infrastructure impact fees. Key findings of the study included the following:

- In 1999, total development fees for a single-family dwelling averaged $24,325. The average fees for an apartment unit were $15,531.
- The range of fees varied widely from a low of $11,176 to a high of $59,703 for a single-family dwelling.
- Capital facility fees represented about 80 percent of single-family dwelling fees, and 86 percent of multifamily fees.
- Fees represented an average of two to 20 percent of a single-family dwelling price. Wide variation was due more to variations in housing prices than to fees.

Despite the high development fees in many areas of California, the study concludes: "In hot markets and supply-constrained markets, fee reductions would have little effect on homeownership affordability." However, the study also notes that development fees may affect the ability of developers to access financing and thus may serve as a barrier to building affordable housing.

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[2] Dresch, Marla and Steven M. Sheffrin. *Who Pays for Development Fees and Exactions?* June 1997. Copyright © 1997 Public Policy Institute of California, San Francisco, CA. All rights reserved.

[3] California Department of Housing and Community. *California Pay to Play Study: Residential Development Fees in California Cities and Counties.* 2001.

Housing Affordability in Arizona

The fact that increases in median household income have failed to keep pace with median home sales prices in Arizona in general, and Pima County specifically, is documented in two studies on housing affordability. In the report entitled *The State of Housing in Arizona 2000* from the Arizona Housing Commission[4], the percentage of Arizona households that could afford the median-priced home in the second quarter 1999 was found to be 43 percent. (The report considers housing affordable when its cost does not exceed 30 percent of household income.)

In the *Draft Arizona Affordable Housing Profile, Preliminary Findings*[5], the authors report that out of 186 cities, 121 cities have more affordable housing than Tucson. In Tucson, 61 percent of families can afford the median home price of $135,000 (third quarter 2001 data). This report goes beyond the median sales price to identify the "affordability gap" at various income levels. The affordability gap is defined by "the shortage of affordable units at each household income level compared to the supply of housing." The affordability gap in Pima County was found to be 9.4 percent (31,000 households), slightly lower than the statewide gap of 11.8 percent, but concluded that in " established, larger communities" like Tucson, the affordability gap was found to typically occur at income levels less than 50 percent of median income, where "older housing or alternative forms of housing, such as town homes or manufactured homes, are available in the marketplace."

The report also presents an analysis based on data from 2000 that shows 6.6 percent of new, single-family homes were sold at or below prices considered "affordable" ($90,500, based on the Pima County median income of $34,130). About two-thirds of these affordable units were in the unincorporated areas of the County, with the remaining third in Tucson. Both state housing reports used surveys of stakeholders to identify potential barriers to affordable housing in Arizona. In *The State of Housing in Arizona 2000,* development fees were listed in the second set of 10 most frequently mentioned barriers by stakeholders interviewed. The top 10 barriers included land prices and limited land supply. In the *Draft Arizona Affordable Housing Profile*, survey respondents included impact development fees as a potential barrier at a 33 percent response rate (when just urban area responses were considered). High land cost/limited land availability ranked as the number one barrier. For Pima County, 4 out of 25 respondents, or 16 percent, listed impact fees as a barrier.

A recent report prepared by the Pima County Department of Transportation and Flood Control District considered the relationship between impact fees and housing affordability.[6] The report presents information showing that the median new home sales price increased less than 0.3 percent per year ($368) between 1995 (the year prior to the County's implementation of transportation development fees) and 1998 (while fees were in effect). Since 1998, the median new home sales price has increased by several thousand dollars annually, more than the County's existing development fee of $1,500 per dwelling unit. The

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[4] Arizona Housing Commission. *The State of Housing in Arizona 2000*. 2001.

[5] Pollack, Elliott D. and Company. *Draft Arizona Affordable Housing Profile, Preliminary Findings*. In conjunction with John Lopach, Housing Consultant. April 19, 2002.

[6] Pima County Department of Transportation and Flood Control District. *An Assessment of the Adequacy of the Roadway Development Fee*. October 25, 2002.

report concludes that "other factors have caused the price of housing to increase in recent years." While the County currently provides waivers of the fee for households below a certain income threshold, it is proposing to cease its waiver program.

In an editorial on November 16, 2002, the *Arizona Daily Star* draws parallels between mitigating the effects on housing prices from the Sonoran Desert Conservation Plan and the potential effects of impact fees: " The [Morrison Institute] report recommends that increased supplies of higher-density housing can offset the loss of lower-priced housing resulting from the conservation plan." The editorial goes on to say, "There is no reason to believe that the same approach wouldn't work to offset the higher prices that come from impact fees."